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AUTHOR Bogue, E. Grady
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ABSTRACT

A performance funding policy adopted in Tennessee in 1979, which recognizes and rewards instructional performance through the state funding formula, is described. The schedule permits institutions to earn an additional 2 percent of their educational and general appropriations based on an evaluation of institutional instructional performance on five performance variables. The variables are as follows: proportion of eligible academic programs accredited; performance of graduates on measures of general education and specialized field outcomes; evaluation of institutional programs by enrolled students, recent alumni, and community employer representatives; and peer evaluation of academic programs. An institution could earn a maximum of 20 points on each variable, for a total award of 100 points. In the fall of 1979, 23 public institutions submitted performance data on these five variables; the total performance scores ranged from a low of 0 to a high of 67. In adopting this instructional evaluation schedule, the Tennessee Higher Education Commission requested about $2 million more from the state than it would have without the adoption of that schedule. The formula recommendation was approximately 95 percent funded. The performance standards for the first four variables have been improved and strengthened and the "peer evaluation variable" has been replaced with a variable emphasizing evaluation planning. Some notes on the origins of the policy and the concerns encountered in its implementation are included. (SW)

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RECOGNIZING AND REWARDING INSTRUCTIONAL PERFORMANCE WITH STATE FISCAL POLICY

A PRESENTATION TO

THE ASSOCIATION FOR THE STUDY OF HIGHER EDUCATION

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U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE
NATIONAL INSTITUTE OF EDUCATION

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BY

E. GRADY BOGUE

ASSOCIATE DIRECTOR FOR ACADEMIC AFFAIRS

TENNESSEE HIGHER EDUCATION COMMISSION

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RECOGNIZING AND REWARDING INSTRUCTIONAL PERFORMANCE

WITH STATE FISCAL POLICY

INTRODUCTION - LINKING FUNDING TO INSTRUCTIONAL EFFECTIVENESS

My reflections today describe a performance funding policy recently adopted in Tennessee, a policy which recognizes and rewards instructional performance through the state funding formula. I want to begin my reflections by putting the last first. That is, I want to present the policy and then consider the steps that led to the formulation and implementation of that policy.

In preface, I briefly note that a number of writers have commented on the need to emphasize performance in service-based institutions.

For example, Peter Drucker suggested that:

> . . . Results in the budget-based institution mean a larger budget. Performance is the ability to maintain or increase one's budget. Results, as the term is commonly understood, that is, contribution to the market or achievement toward goals and objectives, are, in effect, secondary. The first test of a budget-based institution and the first requirement for its survival is to obtain the budget. And the budget is not, by definition, related to contribution but to good intentions.[1]

Drucker indicated that "What now has to be learned is to manage service institutions for performance. This may well be the biggest and most important management task in this century."[2]

For higher education, a similar theme was echoed by Dr. John Folger of the Education Commission of the States in the following reflection:

> In the usual set of budget decisions made in the past, the administrator didn't have to have evidence about the effectiveness of educational practices; the management system and its goals didn't require them. If it had, we would be further along in measuring our successes.[3]

The necessity for a renewing emphasis on quality is reflected in three contemporary resources. For example, a draft of the recent Sloan Commission report recommended that . . .

> each state agency arrange for a periodic review of the quality of educational programs at every public college and university within the state . . . Any effort on the part of government agencies, whether state or federal, to evaluate the quality of education arouses profound uneasiness throughout the higher education community, as a threat to institutional autonomy and academic freedom. In our judgment, the impending enrollment decline justifies such a step.[4]

The concluding report of the Carnegie Council on Policy Studies in Higher Education included this scenario as one of the possibilities in the future of higher education:

> Colleges and universities will compete for ever more scarce students in destructive ways--including false advertising, easy academic credits, soft courses, grade inflation. To an alarming degree, some of this happened even before total enrollments started to go down. Public confidence in higher education erodes. Controls increase.[5]

And in a recent address, Stephen Bailey accents this possibility as follows:

> As student enrollments fall in accordance with the democratic trends of the next decade, competition for students will exacerbate the erosion of postsecondary academic standards, for admission, for course credits, and for graduation. The academic mart is in truth in danger of becoming a vast used-car lot, with inter-institutional competition extending within states and across state and national boundaries. Hawkers and hucksters will dangle public money and cheap academic wares in front of credential-hungry customers.[6]

Two years ago at the 1978 AAHE meeting, I presented a cluster of not-so-hypothetical case studies under the title "Lowering Standards to Shore Up Enrollment: The New Invitation to Legislative Interference."[7] These case illustrations included:

. . .Implementation of an open admissions program by a major university the year after its enrollment declines.

. . .Award of credit for national guard drill by a community college

. . .Failure to execute retention policies for two years at a state university.

. . .Reduction of GRE admission scores in a psychology department following loss of two faculty positions to declining enrollments in the previous year.

Among the interesting quality issues we've had opportunity to engage in Tennessee this last year were the award of college level credit for a GED preparation course and the award of graduate credit in an education course conducted by an out-of-state institution on two intensive weekends. These illustrations and questions render the speculation of the Carnegie Report rather concrete for folks in our office and lend meaning to a recent suggestion made by Stephen Bailey writing in a January issue of the Chronicle of Higher Education:

> State higher education planning, coordinating, and governing bodies would try to find formulas for financing that reward improvement in an institution's academic quality. For example, a two percent improvement in student performance on differentiated regional or national tests, could be worth, say an extra two million dollars in state institutional aid. [8]

What I want to report today is that in Tennessee we have implemented a performance funding policy that recognizes and rewards instructional performance with state fiscal policy.

Following a five-year, half-million-dollar development effort, Tennessee adopted a policy in the fall of 1979. I would now like to describe the nature of that policy, the history of its development, and the risk and opportunities we see for the future in our state.

THE INSTRUCTIONAL EVALUATION SCHEDULE

In August of 1979, the Tennessee Higher Education Commission, a statelevel coordinating and planning agency, adopted a performance funding policy which inserted into the basic enrollment driven funding formula a new schedule entitled the instructional evaluation schedule. This schedule permitted institutions to earn an additional two percent of their Educational and General appropriations based on an evaluation of institutional instructional performance on five performance variables. These five performance variables are as follows:

(1) Proportion of eligible academic programs accredited.

(2) Performance of graduates on a measure of general education outcomes.

(3) Performance of graduates on a measure of specialized or major field outcomes.

(4) Evaluation of institutional programs by enrolled students, recent alumni, and community employer representatives.

(5) Peer Evaluation of academic programs.

An institution could earn a maximum of 20 points on each variable, for a total award of 100 points. Here is how the schedule would function for a hypothetical institution known as First Rate College:

ILLUSTRATION

First Rate College has an E & G appropriations recommendation for $20 M, based on all other schedules in the new formula. The maximum amount available to First Rate College for the Instructional Evaluation Schedule would be $400,000--or 2% of its E & G appropriation recommendation.

First Rate College receives the following evaluation and point allocation on the five performance variables.

Variable	Maximum Points	Allowed Points
Accreditation	20	10
General Educ. Outcomes	20	15
Specialty Field Outcomes	20	5
Peer Evaluation	20	10
Evaluation by Enrolled Students, Alumni, Employers	20	15
	100	55

Added to the appropriation recommendation for First Rate College would be an amount equal to 55% of $400,000 or $220,000, making the total recommendation for First Rate College $20,220,000.

In the fall of 1979, twenty-three public institutions submitted performance data on these five variables. The total performance scores ranged from a low of 0 to a high of 67. Participating in the schedule were ten community colleges, four two-year technical institutes, and nine universities. The maximum amount that these institutions might have earned was just a little over $4 million. The dollars actually earned and recommended for the institutions amounted to $2,111,811.

A word about the character of this financial award may be appropriate. Was the money recommended for the instructional evaluation schedule an "add on" or a "deduct"? It had the flavor of both. What the schedule did was to have a modest effect on the relative position of each campus in the

appropriations process. The funding formula in Tennessee is both an asking and allocating device. The factors affecting state funds allocated in higher education in Tennessee, or in any other state, each year certainly include how much is requested. However, these factors also include such variables as the posture of the state's economy, the values of executive and legislative officers, and the priority accorded other state services. Typically, Tennessee higher education has received about 19% of the state's general fund each year. This figure has not shown a great deal of variability.

In adopting this instructional evaluation schedule, the Tennessee Higher Education Commission requested some $2 million more from the state than it would have without the adoption of that schedule. In this sense, the schedule was an add-on. However, the appropriation request for all institutions was reduced by the Commissioner of Finance and Administration. For example, the Tennessee Higher Education Commission recommended a total of approximately $241 million for all formula units for the fiscal year 1980-81. The governor's recommendation, however, was approximately $228 million. Thus, the THEC formula recommendation was approximately 95% funded.

Where is the effect of the instructional evaluation schedule in this cutback? It is embedded in the original request so that the relative position of an institution is improved if it had done well on the schedule. The influence of the schedule is a highly moderate one, an intended effect. At the present, the Tennessee Higher Education Commission has solicited commentary and feedback from institutions and governing boards in the state. An initial set of commentaries has been used to revise the instructional evaluation schedule, and a revised draft is now under consideration at the time these remarks are being delivered. The performance standards for the first four variables have been improved and strengthened and the "peer

evaluation variable" has been replaced with a variable emphasizing evaluation planning.

Our earnest hope is to fashion a revised policy that will have constructive and beneficial impact at the campus level, that will encourage the renewal uses of evaluation, that will involve campus communities not as a bureaucratic add-on but as a part of activity that flows naturally within the educational process. There are important risks to our venture: data and results may be misused and misinterpreted; the policy may result in a "teaching to the test" syndrome, with surface effects but little disturbance in deeper waters. These risks we count relatively modest, however, with the potential for achievement. That we have come this far is a direct tribute to the sense of adventure and initiative exhibited by campus and governing board colleagues.

One of the important assumptions of the policy is that a look at the outcomes and effectiveness of educational programs encourages a re-examination of program intent and content. Another assumption fundamental to the original performance funding project and carried forward to this policy is that there is no single indicator of educational effectiveness that cannot be criticized for some theoretical or practical frailty. Thus, the policy makes use of multiple indicators--process and outcome--and multiple evaluators--faculty, student, employers/citizens, etc. The policy also preserves diversity by providing for different measures of effectiveness as selected by institutions.

POLICY HERITAGE - THE TENNESSEE PERFORMANCE FUNDING PROJECT

Having now said a word about the performance funding policy adopted in Tennessee, a closing word about the origins of this policy is in order. It began in the fall of 1974, almost six years ago, with the implementation

of a major developmental project entitled the Performance Funding Project. The purpose of this project was to explore the feasibility of allocating some portion of state funds on a performance criterion. The project anticipated dissatisfactions with enrollment driven funding formulas and a growing public concern over performance assessment. The motto adopted for the project was "Acting on the Possible While Awaiting Perfection."

Securing external funding support was an early activity of the project. During 1974-76, funds exceeding a half-million dollars were secured from the Fund for the Improvement of Postsecondary Education, the Kellogg Foundation, the Ford Foundation, and one Tennessee based foundation desiring to remain anonymous.

These funds were used to support planning activities and project staff at the Higher Education Commission. In addition, twelve major campus-based pilot projects were sponsored over a two-year period from 1976 to 1978. The purposes of these campus-based pilot projects were to have participating institutions develop institutional goals, identify associated performance indicators for those goals, and acquire initial performance data on those indicators. Thus, the performance funding project had a "grass roots" involvement at the campus and governing board level from its very inception. In addition, two advisory panels--state and national panels--guided development and implementation of the project.

Among the more important assumptions on which the project was built were the following:

(1) Conventional notions of academic effectiveness are process dominated.

(2) There is both professional and public interest in improving higher education performance assessment.

(3) Reasonably objective measures are available or can be developed to improve performance assessment.

(4) There are important philosophical and technical difficulties:

(a) Any operational definition of effectiveness requires a set of goals. It is appropriate for the state to honor different expressions of excellence.

(b) Assessment of effectiveness requires a methodology not well developed. Measurement is not the same as judging the goodness or worth of an event, activity, or product.

(c) Consensus on standards of evaluation is difficult to obtain. A performance criterion on which agreement is obtained may turn out to be trivial.

(d) Not all variables related to student performance effectiveness are in direct higher education control. However, the integrity of an academic degree is!

(e) Some program effectiveness indicators--licensing examinations, for example--are subject to external manipulation.

(f) Narrow definitions of effectiveness may cause perversions in educational processes.

(g) There is a tendency to believe that what can be measured is all that is important.

(h) There is a widespread fear over misuse of data.

The most important assumption of all, however, is that understanding of higher education performance assessment was more likely to come from an alliance of deliberation and action. This was the source of the motto "Acting on the Possible While Awaiting Perfection" earlier cited.

SUMMARY - THE REFORMATION OF FISCAL INCENTIVE SYSTEMS

One of the more distracting aspects of human achievements is that we tend to see more the arrival than the struggle. We see the final form of an idea--but not the ambiguity, the mistakes, the false starts from which the idea was fashioned. There is no time in this brief paper to describe all the hurdles encountered in the prosecution of this project or the many questions and concerns encountered: (1) Will public officials take the performance ratings and attempt to establish some sort of qualitative ranking of institutions? (2) Why should institutions be deprived of

allocations on quality when they are not getting enough money to have quality under current appropriations levels? (3) Will the rich get richer and poor get poorer? Will the large universities make out better on these variables than the smaller community colleges? (4) To what extent do the performance variables and standards adequately recognize the wide variation in mission among the state's institutions? Nor is there time to recount the pleasures of achievement realized at the campus, board, and commission level. Those interested in a more complete story of the project are invited to contact us at the Higher Education Commission where we are now publishing a complete report on the project from its inception in 1974 to the adoption of the policy in the fall of 1979.

This report tells the story more completely. It tells, for example, of the many lessons learned--the need for both daring and caution, of the contribution of friendly sceptics, of performance concerns laid to rest, of lessons learned concerning the meaning of quality and the management of change. It describes some of the initial concerns held by campus and board officials. It chronicles how we cultivated the interest, the contributions, and support of both legislative and executive branches of government.

The Tennessee Higher Education Commission provides a good model for colleagues interested in the possibility of linking funding policy to instructional performance improvement. No legislative act or administrative regulation led to our project. No law or rule required twelve different campuses and their governing boards to engage in the difficult business of field testing performance assessment. No constraint of commission authority caused these campuses and their governing boards to cooperate with the commission. No external mandate insisted that the Higher Education Commission acquire over a half-million dollars in non-state funds to support the inquiry.

The outcomes of the performance funding project are concrete and positive. A specific policy for recognizing and rewarding performance, for linking state dollars and instructional performance has been designed, implemented, evaluated, and revised for implementation again. This is the primary outcome.

There are other outcomes. There is a set of ideas, some of immediate and practical utility and others of stimulative value. There is an extended concern for instructional evaluation and improvement. There is a model of change in the state--a model which knows the uncertainty of risk, the discomfort of dissent, the inventing force of action and initiative, the necessity for patience, and the pleasure of accomplishment. There is, finally, a community of faculty and staff who had the qualities of mind and heart, and who now have the experience to take the next steps.

We believe the effort in Tennessee nicely reflects the spirit of Tennessee as the "Volunteer" state. We are mindful of the risks ahead. In an editorial appearing in the April 14, 1979 issue of Saturday Review, Norman Cousins cautioned against the evaluation of education solely in terms of numbers by observing that:

> If CBR had been allowed to govern history, Socrates would have become a baby-sitter; Galileo and Giordano Bruno, court jesters; Columbus a Venetian gondolier; John Miller a maker of limericks; Jefferson a tax collector; Edison, inventor of rubber stamps, and Einstein a uranium prospector.[9]

A similar caveat was voiced by Justice Louis Brandeis when he remarked that:

> Experience should teach us to be most on our guard to protect liberty when the government's purposes are beneficent. The greater dangers to liberty lurk in insidious encroachment by men of zeal, well-meaning, but without understanding.[10]

We know the opportunities and the dangers of what we are working with in Tennessee. With a good sense of adventure and community, we have been behaving as though we could accomplish something worthwhile and important. We hope to insure our investment by sensitive orchestration in the future. The work we are doing is too complex and sensitive not to have the benefit of the nation's best minds with us. We therefore invite your review of our work and your best ideas for improving what we have underway.

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